

**REPORT OF THE AUDIT OF THE  
MCCREARY COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2014**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MCCREARY COUNTY FISCAL COURT**

**June 30, 2014**

The Auditor of Public Accounts has completed the audit of the McCreary County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of McCreary County, Kentucky.

**Financial Condition:**

The McCreary County Fiscal Court had total receipts of \$6,828,142 and disbursements of \$7,130,949 in fiscal year 2014. This resulted in a total ending fund balance of \$1,226,901, which is a decrease of \$302,807 from the prior year.

**Report Comments:**

- 2014-001 The Fiscal Court Should Improve Purchase And Procurement Procedures
- 2014-002 The Fiscal Court Should Strengthen Internal Controls Over Payroll Account Reconciliations
- 2014-003 The Fiscal Court Should Strengthen Internal Controls Over Payroll
- 2014-004 The Fiscal Court Should Ensure Proper Procedures Over Leave Records
- 2014-005 The Fiscal Court Should Improve Internal Control Procedures Over Credit Card Disbursements
- 2014-006 The Fiscal Court Should Pay Invoices Timely In Order To Prevent Unnecessary Payments Of Penalties And Interest Payments
- 2014-007 The County Should Comply With The United States Department Agriculture (USDA) Grant Agreement
- 2014-008 The County Treasurer Should Maintain Accurate Financial Records
- 2014-009 The Fiscal Court Should Maintain Accurate Capital Asset Records
- 2014-010 The Fiscal Court Should Improve Internal Control Procedures Over Receipts By Maintaining Accurate Records And By Segregating Duties Over All Accounting Functions
- 2014-011 The Former County Treasurer And Finance Officer Did Not Reconcile Their Financial Records
- 2014-012 The Fiscal Court Should Not Have Deficit Balances In The Jail And Grant Funds
- 2014-013 The McCreary County Fiscal Court Should Strengthen Controls Over The Loan Program

**Deposits:**

The fiscal court deposits were insured and collateralized by bank securities.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Douglas Stephens, McCreary County Judge/Executive

Members of the McCreary County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of McCreary County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
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### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in more fully in Note 1, the financial statement is prepared by McCreary County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of McCreary County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of McCreary County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of McCreary County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules and capital asset schedule, have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

To the People of Kentucky  
 Honorable Steven L. Beshear, Governor  
 Lori H. Flanery, Secretary  
 Finance and Administration Cabinet  
 Honorable Douglas Stephens, McCreary County Judge/Executive  
 Members of the McCreary County Fiscal Court

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2015 on our consideration of McCreary County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2014-001    The Fiscal Court Should Improve Purchase And Procurement Procedures
- 2014-002    The Fiscal Court Should Strengthen Internal Controls Over Payroll Account Reconciliations
- 2014-003    The Fiscal Court Should Strengthen Internal Controls Over Payroll
- 2014-004    The Fiscal Court Should Ensure Proper Procedures Over Leave Records
- 2014-005    The Fiscal Court Should Improve Internal Control Procedures Over Credit Card Disbursements
- 2014-006    The Fiscal Court Should Pay Invoices Timely In Order To Prevent Unnecessary Payments Of Penalties And Interest Payments
- 2014-007    The County Should Comply With The United States Department Agriculture (USDA) Grant Agreement
- 2014-008    The County Treasurer Should Maintain Accurate Financial Records
- 2014-009    The Fiscal Court Should Maintain Accurate Capital Asset Records
- 2014-010    The Fiscal Court Should Improve Internal Control Procedures Over Receipts By Maintaining Accurate Records And By Segregating Duties Over All Accounting Functions
- 2014-011    The Former County Treasurer And Finance Officer Did Not Reconcile Their Financial Records
- 2014-012    The Fiscal Court Should Not Have Deficit Balances In The Jail And Grant Funds
- 2014-013    The McCreary County Fiscal Court Should Strengthen Controls Over The Loan Program

Respectfully submitted,



Adam H. Edelen  
 Auditor of Public Accounts

March 25, 2015

MCCREARY COUNTY OFFICIALS

For The Year Ended June 30, 2014

**Fiscal Court Members:**

Douglas Stephens	County Judge/Executive
Frankie Ball	Magistrate
Roger Phillips	Magistrate
Jason Mann	Magistrate
Stanley Cox	Magistrate

**Other Elected Officials:**

Conley D. Chaney	County Attorney
Jessie Hatfield	Jailer
Eric Haynes	County Clerk
Othel King	Circuit Court Clerk
Randy Waters	Sheriff
Bruce Lominac	Property Valuation Administrator
Tim Corder	Coroner

**Appointed Personnel:**

Donna Ross	County Treasurer
Candice Bridgeman	Chief Financial Officer

**MCCREARY COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2014**

**MCCREARY COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2014**

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 555,075	\$ 378,915	\$
In Lieu Tax Payments	366,856		
Excess Fees	24,771		
Licenses and Permits	48,413		
Intergovernmental	115,907	1,976,139	100,966
Charges for Services	1,063,803		3,340
Miscellaneous	117,233	11,510	25,512
Interest	115	723	31
Total Receipts	<u>2,292,173</u>	<u>2,367,287</u>	<u>129,849</u>
<b>DISBURSEMENTS</b>			
General Government	686,676		
Protection to Persons and Property	879,413		683,795
General Health and Sanitation	61,099		
Recreation and Culture	40,169		
Roads		1,734,503	
Road Facilities		100,919	
Debt Service	126,033	14,438	22,472
Administration	808,285	450,099	61,465
Total Disbursements	<u>2,601,675</u>	<u>2,299,959</u>	<u>767,732</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(309,502)</u>	<u>67,328</u>	<u>(637,883)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds	1,037,746		632,716
Transfers To Other Funds	(830,615)	(199,594)	
Total Other Adjustments to Cash (Uses)	<u>207,131</u>	<u>(199,594)</u>	<u>632,716</u>
Net Change in Fund Balance	(102,371)	(132,266)	(5,167)
Fund Balance - Beginning (Restated)	250,846	543,334	(1,309)
Fund Balance - Ending	<u>\$ 148,475</u>	<u>\$ 411,068</u>	<u>\$ (6,476)</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 272,376	\$ 395,184	\$ 53,224
Plus: Deposits In Transit			
Plus: Receivables		18,390	
Less: Outstanding Checks	(123,901)	(2,506)	(59,700)
Fund Balance - Ending	<u>\$ 148,475</u>	<u>\$ 411,068</u>	<u>\$ (6,476)</u>

The accompanying notes are an integral part of the financial statement.

**MCCREARY COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>Budgeted Funds</b>						
<b>Local Government Economic Assistance Fund</b>	<b>Solid Waste Fund</b>	<b>Park Fund</b>	<b>Park Dedicated Fund</b>	<b>Occupational Tax Fund</b>	<b>Grant Fund</b>	<b>Emergency Dispatch Fund</b>
\$	\$	\$	\$	\$ 879,744	\$	\$ 140,506
	33,692					
121,836	47,232				158,853	115,559
		17,461				
1,349	10,202	4,625				5,006
168			207	160	9	10
<u>123,353</u>	<u>91,126</u>	<u>22,086</u>	<u>207</u>	<u>879,904</u>	<u>158,862</u>	<u>261,081</u>
	60,489				103,180	209,956
	7,710	61,939			102,279	
1,200						
57,499		52,958				
	28,590	23,864		420	26	96,420
<u>58,699</u>	<u>96,789</u>	<u>138,761</u>		<u>420</u>	<u>205,485</u>	<u>306,376</u>
<u>64,654</u>	<u>(5,663)</u>	<u>(116,675)</u>	<u>207</u>	<u>879,484</u>	<u>(46,623)</u>	<u>(45,295)</u>
	3,000	105,500			32,661	48,000
				(838,152)		
	<u>3,000</u>	<u>105,500</u>		<u>(838,152)</u>	<u>32,661</u>	<u>48,000</u>
64,654	(2,663)	(11,175)	207	41,332	(13,962)	2,705
<u>147,650</u>	<u>27,616</u>	<u>12,986</u>	<u>230,005</u>	<u>57,063</u>	<u>3,914</u>	<u>3,213</u>
<u>\$ 212,304</u>	<u>\$ 24,953</u>	<u>\$ 1,811</u>	<u>\$ 230,212</u>	<u>\$ 98,395</u>	<u>\$ (10,048)</u>	<u>\$ 5,918</u>
\$ 212,304	\$ 26,739	\$ 8,533	\$ 230,212	\$ 98,395	\$ 9,982	\$ 7,217
	(1,786)	(6,722)			(20,030)	(1,299)
<u>\$ 212,304</u>	<u>\$ 24,953</u>	<u>\$ 1,811</u>	<u>\$ 230,212</u>	<u>\$ 98,395</u>	<u>\$ (10,048)</u>	<u>\$ 5,918</u>

The accompanying notes are an integral part of the financial statement.

**MCCREARY COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2014**  
**(Continued)**

Budgeted Funds				Unbudgeted Funds		
Disaster Assistance Fund	Revolving Loan Fund	Economic Development Fund	Ambulance Equipment Fund	McCreary County Courthouse And Public Square Corporation Fund	Jail Commissary Fund	Total Funds
\$	\$	\$ 15,660	\$	\$	\$	\$ 1,969,900
						366,856
						24,771
						82,105
		35,887		421,105		3,093,484
						1,084,604
	20,353	6,548				202,338
23	2,615		19		4	4,084
23	22,968	58,095	19	421,105	4	6,828,142
		131,501				818,177
						1,936,833
						61,099
						212,097
						1,735,703
						100,919
				419,105		692,505
	68,304	34,143		2,000		1,573,616
	68,304	165,644		421,105		7,130,949
23	(45,336)	(107,549)	19		4	(302,807)
			50,000			1,909,623
(32,546)					(8,716)	(1,909,623)
(32,546)			50,000		(8,716)	
(32,523)	(45,336)	(107,549)	50,019		(8,712)	(302,807)
50,208	78,028	114,711			11,443	1,529,708
\$ 17,685	\$ 32,692	\$ 7,162	\$ 50,019	\$ 0	\$ 2,731	\$ 1,226,901
\$ 17,685	\$ 32,692	\$ 8,384	\$ 45,019	\$	\$ 2,731	\$ 1,420,677
			5,000			5,000
						18,390
		(1,222)				(217,166)
\$ 17,685	\$ 32,692	\$ 7,162	\$ 50,019	\$ 0	\$ 2,731	\$ 1,226,901

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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**MCCREARY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2014**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of McCreary County includes all budgeted and unbudgeted funds under the control of the McCreary County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

The McCreary County Park Board, McCreary County Airport Board, and the McCreary County Tourist Commission would have been included in the reporting entity under accounting principles generally accepted in the United State of America (GAAP) as established by the Government Accounting Standards Board. However under the regulatory basis they are no longer are required components of the reporting entity.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**MCCREARY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Solid Waste Fund - The primary purpose of this fund is to account for the county's solid waste programs including recycling, tire recycling, litter abatement, and general operation and enforcement of solid waste laws and programs in the county. The primary source of receipts for this fund is derived from franchise fees paid to the county and state grants.

Park Fund - The primary purpose of this fund is to account for operation of the county park and the 4H Camp. The primary source of receipts for this fund is transfers from the General Fund and facility rentals.

Park Dedicated Fund - The primary purpose of this fund is to account for the activity as a result of an ongoing environmental issue that occurred during construction of the county park. The contractor performed outside his scope of work causing a sediment breach which resulted in the "take" of a habitat of an endangered fish. As a result the Kentucky Division of Water and Fish and Wildlife Service became involved with the project causing fines and mitigation work on the site. The contractor was owed \$230,000 in order to complete his contract, so these funds were set aside until the project is given environmental clearance and costs of the contractor's action to the County determined.

Occupational Tax Fund - The primary purpose of this fund is to account for the collection of occupational taxes. The primary source of receipts for this fund is occupational employment tax and net profit tax.

Grant Fund - The primary purpose of this fund is to manage state and federal grants received by the County. The primary source of receipts for this fund is state and federal grants.

Emergency Dispatch Fund - The primary purpose of this fund is to account for the county's emergency dispatch center operations within local office of emergency management. The primary source of receipts for this fund is phone surcharges and wireless surcharges.

Disaster Assistance Fund - The primary purpose of this fund is to account for the expense of emergencies and disasters in the County. The primary source of receipts for this fund is transfers from the General Fund.

Revolving Loan Fund - The primary purpose of this fund is to account for the County small business revolving loan program. The primary source of receipts for this fund is the payments on the loans.

Economic Development Fund - The primary purpose of this fund is to account for economic development and tourism offices. The primary source of receipts for this fund is occupational tax.

**MCCREARY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

Ambulance Equipment Fund - The primary purpose of this fund is to account for the purchase of new ambulance equipment. The primary source of receipts for this fund is state grants.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

McCreary County Courthouse and Public Square Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

Jail Commissary Fund - The Fiscal Court closed this fund during the fiscal year ending June 30, 2013. The remaining funds are amounts due to prior inmates.

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the McCreary County Courthouse and Public Square Construction Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

**E. McCreary County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting McCreary County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of McCreary County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**MCCREARY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Deposits and Investments**

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Long-term Obligations**

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**Note 2. Deposits**

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**MCCREARY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Jail Fund	Solid Waste Fund	Park Fund	Grant Fund	Emergency Dispatch Fund	Ambulance Equipment Fund
General Fund	\$	\$ 624,000	\$ 3,000	\$ 105,500	\$ 115	\$ 48,000	\$ 50,000
Road Fund	199,594						
Occupational Tax Fund	838,152						
Disaster Assistance Fund					32,546		
Jail Commissary Fund		8,716					
Total Transfers In	<u>\$ 1,037,746</u>	<u>\$ 632,716</u>	<u>\$ 3,000</u>	<u>\$ 105,500</u>	<u>\$ 32,661</u>	<u>\$ 48,000</u>	<u>\$ 50,000</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

**Note 4. Agency Trust Funds**

Trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust fund:

Jail Commissary Fund - This fund accounts for funds received from the inmates. The balance in the Jail Commissary Fund as of June 30, 2014 was \$2,731. The Fiscal Court closed the Jail Commissary Fund during fiscal year ending June 30, 2013. The remaining funds are amounts due to prior inmates.

FSA/HRA Fund - This fund accounts for employee and employer contributions to reimburse employees for health care expenses.

**Note 5. Operating Leases**

The Fiscal Court entered into various lease agreement for copying machines to be used by various county departments. The future minimum lease payments for these leases are as follows:

Fiscal Year Ended June 30	Amount
2015	\$ 8,376
2016	6,686
2017	4,532
2018	2,694
2019	449
Total Minimum Lease Payments	<u>\$ 22,737</u>

**MCCREARY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 6. Notes Receivable**

In 1994, McCreary County, in cooperation with Scott County, Tennessee, formed the Rural Enterprise Community known as the Scott-McCreary Area Revitalization Team (SMART) for the purpose of increasing economic development in these two counties. As a part of this effort, SMART-approved low interest rate loans were made available to eligible businesses from Enterprise Community Program funds, which were passed through to the County from the U.S. Department of Health and Human Services. In order to account for the loan repayments, McCreary County established the SMART Works Fund. In 1998, the County was also awarded Rural Business Enterprise Grants (RBEG) for SMART-approved low interest low interest rate loans to eligible businesses, which were passed through U.S. Department of Agriculture. The county combined the RBEG and SMART Works accounts during calendar year 2011. The county may use the loan repayments of the SMART Works Fund and the RBEG Revolving Loan Fund in accordance with each federal program's guidelines. The balance of receivables due as of June 30, 2014 is \$950,443.

**Note 7. Long-term Debt**

**A. First Mortgage Revenue Bonds (County Facilities Project), Series 1999A and Series 2009**

On November 1, 1999, the McCreary County Courthouse and Public Square Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center, which is attached to the courthouse and obtaining rental space for the AOC at the Justice Center. In November of 1999, the McCreary County Courthouse and Public Square Corporation issued 2009 First Mortgage Revenue Bonds in the amount of \$5,205,000 in order to construct the McCreary County Justice Center.

The McCreary County Courthouse and Public Square Corporation designated the County to act as its agent in order to plan, design, construct, manage, and maintain the Justice Center. The McCreary County Courthouse and Public Square Corporation expect annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under terms of the lease, the AOC has agreed to pay directly to the paying agent bank the use allowances payments as provided in the lease. The lease agreement is renewable each year. The McCreary County Courthouse and Public Square Corporation are dependent upon the use of allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2020, but the lease does not legally obligate the AOC to do so.

In July 2009, the McCreary County Fiscal Court retired the 1999A and 2001 B series bonds by the issuance of Series 2009 bonds in the amount of \$3,515,000. This refunding resulted in an average interest rate reduction of 1.77 percent and estimated present value savings amount of \$150,915.

The debt service requirements for the 2009 First Mortgage Revenue Bonds are presented as follows:

**MCCREARY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**A. First Mortgage Revenue Bonds (County Facilities Project), Series 1999A and Series 2009 (Continued)**

<u>Fiscal Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2015	\$ 350,000	\$ 68,455
2016	365,000	59,327
2017	375,000	48,775
2018	385,000	37,375
2019	395,000	25,280
2020-2022	<u>490,000</u>	<u>16,280</u>
Totals	<u>\$ 2,360,000</u>	<u>\$ 255,492</u>

**B. Jail Facility Lease Participation Agreement**

The Kentucky Local correctional Facilities Authority (KLCFA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds for the purpose of construction and reconstruction of jail facilities. On October 15, 1984 McCreary County entered into a lease participation agreement and financial plan for jail construction costs with KLCFA, which was subsequently amended February 15, 1987, agreeing to pay KLCFA lease payments equal to \$316,534 principals plus a proportional share of interest on the KLCFA's Multi-County Correctional Refunding and Improvement Bonds, 1987 Series. On February 1, 1994, KLCFA issued its Multi-County Correctional Facilities Refunding Bonds, 1994 Series refunding the 1987 Series.

On October 13, 2004, KLCFA issued its Multi-County Correctional Facilities Revenue Refunding Bonds, Series 2004, refunding the 1994 Series. As of October 13, 2004, McCreary County's outstanding principal balance on its lease participation agreement with KLCFA for the County's share of the 1994 Series was \$182,172. McCreary County's proportionate share of the October 13, 2004 refunding resulted in an additional principal reduction of \$18,907 and interest savings of \$7,852.

The second amended lease participation agreement dated October 1, 2004 between KLCFA and McCreary County requires an annual principal payment to be made by October 1 and semi-annual interest payments to be made on October 1 and April 1. Interest rates range from 6.92% to 6.94%. As of June 30, 2014, the principal balance on the agreement for McCreary County's share of KLCFA's 2004 Series was \$21,672. Lease participation payments for the remaining years are as follows:

<u>Fiscal Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2015	<u>\$ 21,672</u>	<u>\$ 752</u>
Totals	<u>\$ 21,672</u>	<u>\$ 752</u>

**MCCREARY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**C. Courthouse Renovations**

On June 26, 2013, the McCreary County Fiscal Court issued \$246,320 for the purpose of paying off McCreary Co, KY (ADA) KADDFT Lease Acquisition Program 2001 Series B 59517. The debt requires semi-annual interest payments due on October 1 and April 1. The debt will mature on October 1, 2021. The principal balance as of June 30, 2014 is \$226,248. Future principal and interest requirements are as follows:

<u>Fiscal Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2015	\$ 26,192	\$ 5,244
2016	25,689	4,605
2017	25,172	3,980
2018	29,542	3,307
2019	28,794	2,589
2020-2022	<u>90,859</u>	<u>3,421</u>
Totals	<u>\$ 226,248</u>	<u>\$ 23,146</u>

**D. Asphalt Truck**

On July 21, 2008, the McCreary County Fiscal Court entered into a 10-year financing obligation with KACo Leasing Trust for the purchase of an asphalt truck. Principal and interest payments are due monthly by the 20th day of the month. The principal balance as of June 30, 2014 is \$53,477. Future principal and interest requirements are as follows:

<u>Fiscal Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2015	\$ 12,301	\$ 2,143
2016	12,802	1,647
2017	13,325	1,130
2018	13,868	593
2019	<u>1,181</u>	<u>24</u>
Totals	<u>\$ 53,477</u>	<u>\$ 5,537</u>

**E. Ambulance**

On January 25, 2010, the McCreary County Fiscal Court entered into a 5-year financing obligation with KACo Leasing Trust for the purchase of (2) ambulances at the total price of \$209,658. Interest payments at 4.355% are due monthly by the 20th, with annual principal payments due each January. The principal balance as of June 30, 2014 is \$44,658. Future principal and interest requirements are as follows:

**MCCREARY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**E. Ambulance (Continued)**

	Fiscal Year Ended June 30,	Principal	Scheduled Interest
2015		\$ 44,658	\$ 1,272
Totals		\$ 44,658	\$ 1,272

**F. Economic Development Loan**

In September 2009, McCreary County Fiscal Court obtained a Rural Economic Development Finance Agreement for the construction of a multi-generational use building. The total amount financed was \$500,000 over a 10 year period. The agreement requires an annual service fee of \$4,458 with a zero rate of interest and payments of \$4,167 due the 1st of each month. The principal balance as of June 30, 2014 is \$258,333. Future principal and service fee requirements are as follows:

	Fiscal Year Ended June 30,	Principal	Scheduled Interest
2015		\$ 45,833	\$ 2,458
2016		50,000	1,958
2017		50,000	1,458
2018		50,000	958
2019		50,000	458
2020		12,500	
Totals		\$ 258,333	\$ 7,290

**MCCREARY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**G. Ten Commandments Lawsuit General Obligation Notes Series 2011**

In December 2011, McCreary County Fiscal Court entered a note agreement with The Bank of McCreary County to pay settlement to the American Civil Liberties Union for posting the Ten Commandments in the McCreary County Courthouse. The total amount finance was \$236,907 at a fixed rate of 3.50% with payments to be made quarterly until December 2016. The principal balance as of June 30, 2014 is \$123,612. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30,	Principal	Scheduled Interest
2015	\$ 48,159	\$ 3,803
2016	49,862	1,997
2017	25,591	338
Totals	<u>\$ 123,612</u>	<u>\$ 6,138</u>

**H. Mack Trucks**

On December 8, 2008, the McCreary County Fiscal Court entered into a financing obligation with KACo Leasing Trust for the purchase of two Mack Trucks. The principal was \$206,184 at an effective interest rate of 3.83% for a period of 5 years, with principal due annually and interest paid monthly. The outstanding principal was paid and the debt was retired during fiscal year June 30, 2014.

**I. Changes In Long-term Debt**

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 2,705,000	\$	\$ 345,000	\$ 2,360,000	\$ 350,000
Capital Leases	308,333		50,000	258,333	45,833
Financing Obligations	669,516		199,850	469,666	152,982
Total Long-term Debt	<u>\$ 3,682,849</u>	<u>\$ 0</u>	<u>\$ 594,850</u>	<u>\$ 3,087,999</u>	<u>\$ 548,815</u>

**MCCREARY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 8. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

The county's contribution for FY 2012 was \$470,129, FY 2013 was \$513,298, and FY 2014 was \$482,198.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**MCCREARY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 9. Flexible Spending Account**

The McCreary County Fiscal Court established a flexible spending account in 2010 to provide employees an additional health benefit. The County has contracted with Febco. Inc., a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing \$2,150 each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction.

**Note 10. Insurance**

For the fiscal year ended June 30, 2014, McCreary County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 11. Prior Period Adjustments**

The beginning balance of the General Fund and Jail Commissary Funds have been restated by a decrease of \$43,634 and an increase of \$2,379 collectively due to incorrect adjustments in the prior year. The Treasurer voided prior year outstanding checks for being outstanding more than one year. This resulted in an increase to the beginning balance of the Road Fund by \$566, the Jail Fund by \$438, the Emergency Dispatch Fund by \$1,848, and the Economic Development Fund by \$260.

**Note 12. Fund Balance - Deficit**

As of June 30 2014, the Jail Fund and the Grant Fund both had deficit balances of \$6,476 and \$10,048, respectively. The deficit in the Jail Fund resulted from the failure to properly follow up on outstanding checks in a timely manner and properly monitor cash balances. The deficit in the Grant Fund was due to Fiscal Court's practice of approving and issuing a check prior to having funds available to cover the check.

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**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2014**



**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2014**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 558,000	\$ 561,853	\$ 555,075	\$ (6,778)
In Lieu Tax Payments	285,000	305,581	366,856	61,275
Excess Fees	16,000	16,000	24,771	8,771
Licenses and Permits	46,750	46,750	48,413	1,663
Intergovernmental	139,250	139,250	115,907	(23,343)
Charges for Services	950,000	950,000	1,063,803	113,803
Miscellaneous	213,500	213,500	117,233	(96,267)
Interest	500	500	115	(385)
Total Receipts	<u>2,209,000</u>	<u>2,233,434</u>	<u>2,292,173</u>	<u>58,739</u>
<b>DISBURSEMENTS</b>				
General Government	751,258	802,877	686,676	116,201
Protection to Persons and Property	876,824	967,443	879,413	88,030
General Health and Sanitation	62,628	72,517	61,099	11,418
Recreation and Culture	49,510	51,261	40,169	11,092
Debt Service	77,750	79,033	126,033	(47,000)
Administration	881,322	832,354	808,285	24,069
Total Disbursements	<u>2,699,292</u>	<u>2,805,485</u>	<u>2,601,675</u>	<u>203,810</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(490,292)</u>	<u>(572,051)</u>	<u>(309,502)</u>	<u>262,549</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	1,140,292	1,150,244	1,037,746	(112,498)
Transfers To Other Funds	<u>(750,000)</u>	<u>(750,000)</u>	<u>(830,615)</u>	<u>(80,615)</u>
Total Other Adjustments to Cash (Uses)	<u>390,292</u>	<u>400,244</u>	<u>207,131</u>	<u>(193,113)</u>
Net Change in Fund Balance	(100,000)	(171,807)	(102,371)	69,436
Fund Balance Beginning (Restated)	<u>100,000</u>	<u>144,283</u>	<u>250,846</u>	<u>106,563</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (27,524)</u>	<u>\$ 148,475</u>	<u>\$ 175,999</u>

**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>ROAD FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 350,000	\$ 378,915	\$ 378,915	\$
Intergovernmental	1,821,373	2,020,967	1,976,139	(44,828)
Miscellaneous	122,500	122,500	11,510	(110,990)
Interest	1,000	1,000	723	(277)
Total Receipts	2,294,873	2,523,382	2,367,287	(156,095)
<b>DISBURSEMENTS</b>				
Roads	1,335,725	2,043,476	1,734,503	308,973
Road Facilities	356,250	263,235	100,919	162,316
Debt Service	14,440	15,443	14,438	1,005
Administration	648,816	486,404	450,099	36,305
Total Disbursements	2,355,231	2,808,558	2,299,959	508,599
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(60,358)	(285,176)	67,328	352,504
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(189,642)	(199,594)	(199,594)	
Total Other Adjustments to Cash (Uses)	(189,642)	(199,594)	(199,594)	
Net Change in Fund Balance	(250,000)	(484,770)	(132,266)	352,504
Fund Balance Beginning (Restated)	250,000	542,768	543,334	566
Fund Balance - Ending	\$ 0	\$ 57,998	\$ 411,068	\$ 353,070

**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 98,000	\$ 100,567	\$ 100,966	\$ 399
Charges for Services	4,000	4,000	3,340	(660)
Miscellaneous	19,000	30,987	25,512	(5,475)
Interest	100	100	31	(69)
Total Receipts	121,100	135,654	129,849	(5,805)
DISBURSEMENTS				
Protection to Persons and Property	554,243	694,860	683,795	11,065
Debt Service	25,071	22,730	22,472	258
Administration	71,786	62,654	61,465	1,189
Total Disbursements	651,100	780,244	767,732	12,512
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(530,000)	(644,590)	(637,883)	6,707
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	525,000	525,000	632,716	107,716
Total Other Adjustments to Cash (Uses)	525,000	525,000	632,716	107,716
Net Change in Fund Balance				
	(5,000)	(119,590)	(5,167)	114,423
Fund Balance Beginning (Restated)	5,000	(1,747)	(1,309)	438
Fund Balance - Ending				
	\$ 0	\$ (121,337)	\$ (6,476)	\$ 114,861

**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Licenses and Permits	\$ 250	\$ 250	\$	\$ (250)
Intergovernmental	130,000	134,088	121,836	(12,252)
Miscellaneous			1,349	1,349
Interest	500	500	168	(332)
Total Receipts	130,750	134,838	123,353	(11,485)
<b>DISBURSEMENTS</b>				
Roads	200,600	200,978	1,200	199,778
Debt Service	57,505	57,719	57,499	220
Administration	22,645	3,657		3,657
Total Disbursements	280,750	262,354	58,699	203,655
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(150,000)	(127,516)	64,654	192,170
Net Change in Fund Balance	(150,000)	(127,516)	64,654	192,170
Fund Balance Beginning	150,000	147,650	147,650	
Fund Balance - Ending	\$ 0	\$ 20,134	\$ 212,304	\$ 192,170

**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

SOLID WASTE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 55,000	\$ 55,000	\$ 33,692	\$ (21,308)
Intergovernmental	60,000	60,000	47,232	(12,768)
Miscellaneous	13,000	13,000	\$ 10,202	(2,798)
Interest	100	100		(100)
Total Receipts	128,100	128,100	91,126	(36,974)
DISBURSEMENTS				
Protection to Persons and Property	72,198	67,646	60,489	7,157
Recreation and Culture	21,750	18,974	7,710	11,264
Administration	44,152	39,395	28,590	10,805
Total Disbursements	138,100	126,015	96,789	29,226
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(10,000)	2,085	(5,663)	(7,748)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			3,000	3,000
Total Other Adjustments to Cash (Uses)			3,000	3,000
Net Change in Fund Balance	(10,000)	2,085	(2,663)	(4,748)
Fund Balance Beginning	10,000	27,616	27,616	
Fund Balance - Ending	\$ 0	\$ 29,701	\$ 24,953	\$ (4,748)

**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>PARK FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Charges for Services	\$ 18,000	\$ 18,000	\$ 17,461	\$ (539)
Miscellaneous	16,600	16,600	4,625	(11,975)
Interest	500	500		(500)
Total Receipts	35,100	35,100	22,086	(13,014)
<b>DISBURSEMENTS</b>				
Recreation and Culture	102,750	90,899	61,939	28,960
Debt Service	280,000	62,560	52,958	9,602
Administration	32,350	28,627	23,864	4,763
Total Disbursements	415,100	182,086	138,761	43,325
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(380,000)	(146,986)	(116,675)	30,311
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	150,000	150,000	105,500	(44,500)
Total Other Adjustments to Cash (Uses)	150,000	150,000	105,500	(44,500)
Net Change in Fund Balance	(230,000)	3,014	(11,175)	(14,189)
Fund Balance Beginning	230,000	12,986	12,986	
Fund Balance - Ending	\$ 0	\$ 16,000	\$ 1,811	\$ (14,189)

**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>PARK DEDICATED FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Interest	\$	\$	\$ 207	\$ 207
Total Receipts			207	207
<b>DISBURSEMENTS</b>				
Debt Service		230,000		230,000
Administration		19		19
Total Disbursements		230,019		230,019
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(230,019)	207	230,226
Net Change in Fund Balance		(230,019)	207	230,226
Fund Balance Beginning		230,019	230,005	(14)
Fund Balance - Ending	\$ 0	\$ 0	\$ 230,212	\$ 230,212

**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>OCCUPATIONAL TAX FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Taxes	\$ 950,000	\$ 950,000	\$ 879,744	\$ (70,256)
Interest	650	650	160	(490)
Total Receipts	950,650	950,650	879,904	(70,746)
<b>DISBURSEMENTS</b>				
Administration		57,068	420	56,648
Total Disbursements		57,068	420	56,648
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	950,650	893,582	879,484	(14,098)
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(950,650)	(950,650)	(838,152)	112,498
Total Other Adjustments to Cash (Uses)	(950,650)	(950,650)	(838,152)	112,498
Net Change in Fund Balance		(57,068)	41,332	98,400
Fund Balance Beginning		57,063	57,063	
Fund Balance - Ending	\$ 0	\$ (5)	\$ 98,395	\$ 98,400

**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

	<b>GRANT FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 405,500	\$ 481,796	\$ 158,853	\$ (322,943)
Interest			9	9
Total Receipts	405,500	481,796	158,862	(322,934)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	120,500	196,770	103,180	93,590
Recreation and Culture	285,000	285,000	102,279	182,721
Administration	5,000	8,940	26	8,914
Total Disbursements	410,500	490,710	205,485	285,225
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(5,000)	(8,914)	(46,623)	(37,709)
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	5,000	5,000	32,661	27,661
Total Other Adjustments to Cash (Uses)	5,000	5,000	32,661	27,661
Net Change in Fund Balance		(3,914)	(13,962)	(10,048)
Fund Balance Beginning		3,914	3,914	
Fund Balance - Ending	\$ 0	\$ 0	\$ (10,048)	\$ (10,048)

**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>EMERGENCY DISPATCH FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 175,000	\$ 175,000	\$ 140,506	\$ (34,494)
Intergovernmental	125,000	125,000	115,559	(9,441)
Miscellaneous	7,000	7,000	5,006	(1,994)
Interest	100	100	10	(90)
Total Receipts	307,100	307,100	261,081	(46,019)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	264,250	253,382	209,956	43,426
Administration	97,850	101,869	96,420	5,449
Total Disbursements	362,100	355,251	306,376	48,875
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(55,000)	(48,151)	(45,295)	2,856
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	50,000	50,000	48,000	(2,000)
Total Other Adjustments to Cash (Uses)	50,000	50,000	48,000	(2,000)
Net Change in Fund Balance	(5,000)	1,849	2,705	856
Fund Balance Beginning (Restated)	5,000	1,365	3,213	1,848
Fund Balance - Ending	\$ 0	\$ 3,214	\$ 5,918	\$ 2,704

**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>DISASTER ASSISTANCE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Interest	\$ 250	\$ 250	\$ 23	\$ (227)
Total Receipts	250	250	23	(227)
<b>DISBURSEMENTS</b>				
Administration	50,250	50,458		50,458
Total Disbursements	50,250	50,458		50,458
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(50,000)	(50,208)	23	50,231
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds			(32,546)	
Total Other Adjustments to Cash (Uses)			(32,546)	
Net Change in Fund Balance	(50,000)	(50,208)	(32,523)	17,685
Fund Balance Beginning	50,000	50,208	50,208	
Fund Balance - Ending	\$ 0	\$ 0	\$ 17,685	\$ 17,685

**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>REVOLVING LOAN FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Miscellaneous	\$ 75,000	\$ 75,000	\$ 20,353	\$ (54,647)
Interest	500	2,869	2,615	(254)
Total Receipts	75,500	77,869	22,968	(54,901)
<b>DISBURSEMENTS</b>				
Administration	150,500	69,369	68,304	1,065
Total Disbursements	150,500	69,369	68,304	1,065
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(75,000)	8,500	(45,336)	(53,836)
Net Change in Fund Balance	(75,000)	8,500	(45,336)	(53,836)
Fund Balance Beginning	75,000	78,028	78,028	
Fund Balance - Ending	\$ 0	\$ 86,528	\$ 32,692	\$ (53,836)

**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

ECONOMIC DEVELOPMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 15,000	\$ 15,000	\$ 15,660	\$ 660
Intergovernmental	11,000	21,000	35,887	14,887
Miscellaneous	3,500	7,866	6,548	(1,318)
Interest	500	500		(500)
Total Receipts	30,000	44,366	58,095	13,729
DISBURSEMENTS				
General Government	144,547	142,004	131,501	10,503
Administration	40,453	34,596	34,143	453
Total Disbursements	185,000	176,600	165,644	10,956
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(155,000)	(132,234)	(107,549)	24,685
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	25,000	25,000		(25,000)
Transfers To Other Funds	(5,000)	(5,000)		5,000
Total Other Adjustments to Cash (Uses)	20,000	20,000		(20,000)
Net Change in Fund Balance	(135,000)	(112,234)	(107,549)	4,685
Fund Balance Beginning (Restated)	135,000	114,451	114,711	260
Fund Balance - Ending	\$ 0	\$ 2,217	\$ 7,162	\$ 4,945

**MCCREARY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>AMBULANCE EQUIPMENT FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Interest	\$	\$	\$ 19	\$ 19
Total Receipts			19	19
<b>DISBURSEMENTS</b>				
Total Disbursements				
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			19	19
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			50,000	50,000
Total Other Adjustments to Cash (Uses)			50,000	50,000
Net Change in Fund Balance			50,019	50,019
Fund Balance Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 50,019	\$ 50,019

**MCCREARY COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2014**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

**Note 2. Excess of Disbursements Over Appropriations**

Debt Service disbursements in the General Fund exceeded budgeted appropriations by \$47,000.

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**MCCREARY COUNTY**  
**SUPPLEMENTARY SCHEDULE**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**



**MCCREARY COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2014**

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,173,083	\$	\$	\$ 2,173,083
Buildings	9,017,068			9,017,068
Vehicles and Equipment	841,116	79,400		920,516
Other Equipment	1,421,658			1,421,658
Infrastructure	4,580,982	920,622		5,501,604
 Total Capital Assets	 <u>\$ 18,033,907</u>	 <u>\$ 1,000,022</u>	 <u>\$ 0</u>	 <u>\$19,033,929</u>

**MCCREARY COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2014**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings	\$ 5,000	10-75
Other Equipment	\$ 5,000	3-25
Vehicles and Equipment	\$ 5,000	3-25
Infrastructure	\$ 5,000	10-50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Douglas Stephens, McCreary County Judge/Executive  
Members of the McCreary County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McCreary County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated March 25, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the McCreary County Fiscal Court's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the McCreary County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCreary County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations we identified certain deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-003, 2014-004, 2014-005, 2014-006, 2014-008, 2014-009, 2014-010, 2014-011, 2014-012, and 2014-013 to be material weaknesses.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the McCreary County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2014-001, 2014-003, 2014-006, 2014-007, 2014-008, 2014-009, 2014-011, and 2014-012.

**County Judge's Responses to Findings**

The McCreary County Judge's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The County Judge's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

March 25, 2015

**MCCREARY COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2014**



**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2014**

**FINANCIAL STATEMENT FINDINGS:**

2014-001    The Fiscal Court Should Improve Purchase And Procurement Procedures

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Auditors tested sixty (60) of the fiscal court's disbursements, the following was noted:

- Four (4) disbursements were paid using the statement amount without supporting documentation for those charges.
- Five (5) invoices were not paid within thirty working days.
- Two (2) payments did not have supporting documentation or purchase order.
- Six (6) checks to the Road Department for fuel were voided but no evidence was found of re-issue. Supporting documentation from the Road Department show these to be a valid invoices.
- Two (2) fuel invoices did not have a purchase order number.
- Haul tickets do not have a signature of an individual receiving material.
- Haul tickets are not maintained with the invoice. All Road Department invoices are reviewed by the supervisor then only the itemized statement is sent to finance officer for payment.
- Of all the invoices tested, none were cancelled / marked 'Paid'.

These findings stem from a lack of adequate segregation of duties, proper accounting practices and internal controls. These deficiencies increases the risk that misstatements of financial activity and/or fraud will occur and go undetected by the Fiscal Court. Without proper procedures in place to mitigate this risk, Fiscal Court is exposing public resources to potential misstatements and/or fraud.

The State Local Finance Officer, given the authority by KRS 68.210, requires all expenditures to be accompanied by a purchase order and sufficiently documented. And KRS 65.140(2) states 'Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing.

We recommend Fiscal Court maintain supporting documentation (such as haul tickets) with the original invoices and purchase orders, cancel actual invoices upon payment to prevent duplicate payments. We also recommend all invoices be accompanied by the signed haul ticket or packing slip showing receipt of the item purchased. In addition, we recommend the Fiscal Court pay all disbursements within thirty (30) working days in compliance with KRS 65.140. Furthermore, we recommend the Fiscal Court ensure all checks which are valid liabilities be re-issued if stale more than six months.

*County Judge/Executive's Response: Efforts have been taken to strengthen purchase and procurement procedures to avoid similar issues in the future. Invoices submitted for payment are reviewed by at least two staff for accuracy. The purchase order system has been strengthened to ensure proper authorization by the department heads and judge executive office staff. From this point, all paid invoices are being marked paid. The checks to the Road Department referenced in this comment have been reissued, correcting this problem. Haul tickets are currently being processed correctly.*

**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 The Fiscal Court Should Strengthen Internal Controls Over Payroll Account Reconciliations

The payroll revolving account did not reconcile to a zero balance as of June 30, 2014, and the remaining balance could not be readily explained. The remaining balance as of June 30, 2014 was \$60,109, of this balance the auditor determined the county had outstanding liabilities of \$53,502 and outstanding checks of \$2,092 leaving an unexplained balance of \$4,515.

The unreconciled payroll account could cause the county to have insufficient funds to meet payroll requirements or it could cause the county liabilities to not be properly paid or not to be paid in a timely manner.

The payroll account was not properly reconciled for the entire fiscal year and outstanding liabilities have not all been paid timely, as fiscal court owes occupational tax withheld for the third and fourth quarter of fiscal year 2014 totaling \$10,310.

The payroll revolving accounts are clearing accounts and should reconcile to a zero balance at the end of each month which does require the inclusion of outstanding receivables and liabilities. As a result of the weaknesses noted above, reconciled ending balances were not accurate.

We recommend internal controls over the payroll account bank reconciliations be strengthened to ensure receivables as well as obligations for accrued liabilities are reflected on the bank reconciliation and ending reconciled bank balances are accurate. Bank reconciliations should then be reviewed by an independent employee to verify accuracy and completeness. We further recommend the unpaid liabilities for occupational tax totaling \$10,310 be paid to the Occupational Tax Office.

*County Judge/Executive's Response: I internally discussed with auditors the issues with the payroll account not reconciling. With changes in personnel and with both the county treasurer and finance officer now utilizing the same fiscal management software, this issue will be corrected and I will monitor to ensure it does not repeat.*

2014-003 The Fiscal Court Should Strengthen Internal Controls Over Payroll

During the test of payroll the following issues were noted:

- The workweek for each department starts and stops on different days and times.
- Wages are paid to employee prior to completion of the work week wages are being issued for.
- Wages for one employee was miscalculated by \$100 per 20 pay periods causing the employee to be over paid by \$2,007 by the end of the pay period 11/28/14.
- Fiscal Court has approved multiple employees as salaried: five (5) of the employees tested did not submit time sheets.
- Fiscal Court approved additional position/duties for two employees however their timesheets did not reflect the hours to support the additional positions.
- Authorizations for all employee withholdings were not maintained in the personal files.
- One (1) county employee is receiving insurance benefits from Aflac that they are not paying for. The month tested indicated the monthly amount paid by Fiscal Court is \$69.
- Six (6) employees are receiving insurance benefits from Delta Dental they are not paying for. The month tested indicated the monthly amount paid by Fiscal Court is \$221.
- Actual hours do not allow employees time for lunch.
- Timesheets do not reflect in/out and lunch periods.

**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003    The Fiscal Court Should Strengthen Internal Controls Over Payroll (Continued)

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- Taxes were withheld for insurance premiums which are pre-taxable per the IRS.

Weak internal controls over payroll have allowed the errors to go unnoticed or corrected. The lack of properly designed controls creates the possibility that employees will receive benefits or wages not actually earned and would not be detected in a timely manner and disbursements may not be for the correct amounts.

Internal control procedures that are properly designed and implemented allow employees to detect misstatements in a timely manner while preventing misappropriation of assets or inaccurate financial reporting.

KRS 337.320, states “(1) Every employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires.”

OAG 79.448 states, “Section 3 of the Constitution is unequivocal on the point that public emolument to any person must be based on the consideration of public services. By the strongest implication this means public services actually rendered. It does not mean public services to be rendered.”

KRS 337.060(1) states, in part, “No employer shall withhold from any employee any part of the wage agreed upon. This section shall not make it unlawful for an employer to withhold or divert any portion of an employee's wage when the employer is authorized to do so by local, state, or federal law or when a deduction is expressly authorized in writing by the employee to cover insurance premiums, hospital and medical dues....”

The McCreary County Administrative Code states the hours of operation is 8:00 am to 4:30 pm however the office is not actually opened until 8:30 which does not provide the employees sufficient hours to work an eight (8) hour day and also receive an actual lunch period.

We recommend payroll checks only be released after work weeks have been completed or fiscal court institute an interval between the date timesheets are turned in and the date wages are paid. Wages should be paid based on what the fiscal court approved. Also, the county should implement procedures to ensure that correct amounts are withheld from employees' payroll checks for insurance benefits; reviewing and reconciling all insurance invoices to the payroll records prior to payment to ensure premiums are not paid on employees unless they are being withheld from an employee's wages. The reviews should be completed by an individual other than the payroll officer. In addition, the payroll officer should ensure that pretax insurance premiums are not being taxed. Reviews should be completed by an individual other than the payroll officer. We recommend

**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003 The Fiscal Court Should Strengthen Internal Controls Over Payroll (Continued)

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the workweek for each department starts and stop on the same dates and times. We recommend the county comply with KRS 337.320(1) by requiring that timesheets or timecards be maintained for all employees. These should be signed by the employees and then reviewed and signed by the employees' immediate supervisors. We also recommend that signed authorizations be maintained in the employee personnel files for all additional withholdings, and the county complies with the McCreary County Administrative Code with employees clocking in and out for lunch. In addition, the court should review the job descriptions of the employee's assigned additional work to ensure accuracy and support of the additional wages. Fiscal court should also establish a plan to collect the over payments made to the employee in error and implement controls to ensure only authorized wages are being paid. Furthermore, we recommend Fiscal Court obtain a legal opinion from the county attorney as to whether the salaried employees are qualified to be considered a salaried employee under the labor laws.

*County Judge/Executive's Response: A plan to standardize workweeks in all departments and to allow for a two-week holding back for all employees will be accomplished as soon as possible. This will alleviate the issue with pay before work has actually been performed and negate the need for amended timesheets. The clerical error that resulted in one salaried employee being overpaid has been corrected and the proper controls implemented to prevent re-occurrence. Salaried employee status is currently being reviewed and will be administered properly once determined. The two employees that are performing additional duties due to the closing of the jail will have their job descriptions updated to include those duties to justify their additional pay. Controls have been implemented to ensure that all employees that are receiving supplemental insurance are indeed charged for that payment. We are implementing measures to ensure that all employees have adequate time for lunch while still working the required amount of time for which they are paid. Timesheets have been implemented which document proper lunch, etc. Other recommended controls will be implemented.*

2014-004 The Fiscal Court Should Ensure Proper Procedures Over Leave Records

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During the review of payroll, the following issues were noted with leave:

- Leave time is not being properly charged.
  - One employee tested took three days vacation but was not charged vacation which will allow the employee to take additional days off with pay.
- Negative leave balances were noted for sick time.
  - One employee tested took 16 hours sick leave but was only charged for 12 hours which will allow the employee to take an addition four (4) hours off with pay.
  - One salaried employee had a negative sick balance of 5 hours per the employee benefit proof list; however, his pay stub does not reflect any earned, used or leave balances.
- Negative leave balances were noted for vacation time.
  - One employee had a negative vacation leave balance of 80 hours. This allowed the employee to be paid for hours not worked or benefits not yet earned.

**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-004 The Fiscal Court Should Ensure Proper Procedures Over Leave Records (Continued)

- Employees were allowed to be in two different leave codes at the same time.
  - One employee was scheduled to work but took vacation time and was also paid holiday pay on the same day. This allowed the employee to increase their gross pay by getting paid for both leave times.

Lack of adequate internal controls and review of payroll prior to issuance has allowed the leave balances to be improperly recorded without being detected.

The county's policy states, "Employees that are required to work on any holiday will be compensated for that holiday time at the employee's regular rate of pay up to eight (8) hours for each day worked that has been officially declared a holiday in addition to any time physically worked during that holiday period." The policy further states, "No employee will be permitted to take vacation leave that has not been earned."

We recommend the fiscal court comply with the county's personnel policy and implement additional internal controls such as a comparison of the timecards/sheets to the payroll report and the leave summary report prior to the payroll being issued. The review could be documented by signing or initially the payroll and leave report.

*County Judge/Executive's Response: The county administrative code clearly states how all leave time is to be administered, documented and utilized by employees. All employees understand this policy, sign affirmation that they understand the policy and the finance officer is charged with administering this policy. Again, I have implemented changes within my office to ensure that employee leave time is accurately issued, monitored and charged when used by the employee.*

2014-005 The Fiscal Court Should Improve Internal Control Procedures Over Credit Card Disbursements

Auditors reviewed all twelve months of credit card disbursements. During the review, we noted the following:

- Four (4) statements which did not have itemized invoices attached.
- One (1) statement in which the itemized invoices did not agree to the amount paid.
- One (1) payment was made electronically but no check number was found nor was evidence of any supporting documentation.
- A late payment fee and finance charges were assessed (see comment 2014-006).

These findings stem from a lack of adequate segregation of duties, proper accounting practices and internal controls. These deficiencies increase the risk that misstatements of financial activity and/or fraud will occur and go undetected by the Fiscal Court. Without proper procedures in place to mitigate this risk, Fiscal Court is exposing public resources to potential misstatements and/or fraud.

We recommend the Fiscal Court ensure proper accounting practices by installing additional internal controls in the area of credit card disbursements, such as assigning an individual other than the finance officer to review all transactions to ensure that they have proper documentation, purchase orders, etc. This could be evidenced by the reviewer's initials on the credit card statement.

**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-005 The Fiscal Court Should Improve Internal Control Procedures Over Credit Card Disbursements  
 (Continued)

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*County Judge/Executive's Response: The credit card is utilized primarily for travel purposes by my office and the fiscal court, or in times of emergency when no other purchase procedure is allowable. Use of the card is very limited, by a limited number of individuals. I will exercise more control over who is authorized to use the credit card and ensure that all receipts for use are returned to my office in order to pair with the statement and properly issue payment.*

2014-006 The Fiscal Court Should Pay Invoices Timely In Order To Prevent Unnecessary Payments Of Penalties And Interest Payments

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During review of disbursements, debt and payroll the following penalties and interest payments were noted:

- Eight (8) finance charges on credit card invoices totaling \$109.
- One (1) late payment fee on credit card invoice totaling \$39.
- Eight (8) penalties on debt payment invoices totaling \$706.
- Seventeen (17) penalties payable to the IRS and Kentucky State Treasurer on payroll totaling \$2,435.
- Sixteen (16) interest payments for late payments IRS and Kentucky State Treasurer on payroll totaling \$243.
- Four (4) out of the five (5) insurance bills tested were paid late.
- Two (2) penalty payments due for November and December 2013 to the County Employees Retirement System (CERS) for \$1,000 each totaling \$2,000.

Of the items tested, the total payments in penalties and interest were \$5,532. The payment of penalties and interest are due to invoices and payroll withholding not being remitted in a timely manner.

KRS 65.140 states “ (1) Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor. (2) An interest penalty of one percent (1) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor's invoice by the purchaser.”

KRS 78.625 requires a county to file with CERS, by the 10<sup>th</sup> day of each month, both the amount of employee and employer retirement contributions deducted during the previous month, and a record of all contributions made on forms prescribed by CERS. The statute imposes an interest penalty of not less than \$1,000 to be added to the amount due each month if the county fails to file all contributions and reports by the 10<sup>th</sup> day of each month.

We recommend the Fiscal Court comply with KRS 65.140 and KRS 78.625 by paying all invoices timely and forwarding all withholdings to the proper agency in a timely manner to avoid unnecessary penalties and interest.

**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-006 The Fiscal Court Should Pay Invoices Timely In Order To Prevent Unnecessary Payments Of Penalties And Interest Payments (Continued)

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*County Judge/Executive's Response: In recent months, I have implemented a better process for payment of outstanding invoices that should alleviate many of the issues discussed here. The county treasurer is working to ensure cash is on hand prior to the time the finance officer issues a purchase order. Sometimes, however, cash flow remains an issue and payments are made late. Again, I believe the process I have discussed with my staff, and internal changes I have made, will alleviate many of these concerns as late payment penalties are often avoidable.*

2014-007 The County Should Comply With The United States Department Agriculture (USDA) Grant Agreement

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In June 2013 the McCreary County Fiscal Court was awarded a grant by the USDA through the Rural Business Enterprise Grant (RBEG) Program in the amount of \$75,000. In accordance with the Grant agreement, the Fiscal Court is required to provide matching funds in the amount of \$20,000. The grant agreement further requires documentation of the commitment of the matching funds prior to any disbursement of the grant funds and stipulates that the matching funds will be applied to the project first or not less than pro-rata.

In June 2014, the Fiscal Court approved a loan for \$50,000 of which \$40,000 was obtained from this RBEG grant. The remaining \$10,000 was paid from the Revolving Loan Fund. The funds in the Revolving Loan Fund contain repayments of loans from previous RBEG. By using funds from the Revolving Loan Fund, the county has not actually put up any matching funds.

The grant agreement states, "It is clearly understood that matching Revolving Loan Funds (RLF) will remain in perpetuity along with Rural Business Enterprise Grant funds that are likewise designated and referred to as the fund. The fund will contain a permanent Federal Interest equivalent to the dollar amount invested."

We recommend the Fiscal Court reimburse the Revolving Loan Fund for the matching funds previously expended and comply with the USDA grant agreement.

*County Judge/Executive's Response: The statements made within this audit contradict what we were told by USDA officials regarding management of the old revolving loan fund and use of those funds. I understood this action as stated to be appropriate as the matching funds used were thought to have been county revolving loan funds, not federal funds. I will request a meeting with the USDA to review this action and take the steps necessary to correct it.*

2014-008 The County Treasurer Should Maintain Accurate Financial Records

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During the course of the audit, numerous adjustments and reclassifications to county's financial records had to be made in order to ensure their accuracy.

The county treasurer's ledgers did not agree with amounts reflected on the 4<sup>th</sup> quarter financial report and the county treasurer did not prepare and submit an annual settlement to the fiscal court as required by Kentucky Revised Statutes. Also, the county treasurer is allowing cash transfers between funds without first seeking fiscal court approval.

**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-008    The County Treasurer Should Maintain Accurate Financial Records (Continued)

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KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual list the duties of the County Treasurer based on KRS 68.020, 68.300, 68.360(1), and 441.235. This manual requires the County Treasurer to maintain the financial records, to receive and disburse money, to invest funds, to prepare financial reports monthly, and to settle accounts within thirty (30) days after the close of each fiscal year. In addition, the manual requires the County Treasurer to countersign all checks for payment of funds from the county treasury only if the payment is approved by the fiscal court, sufficient funds are available, and an adequate free balance is available in the properly budgeted appropriation account.

We recommend the county treasurer maintain accurate ledgers and from those ledgers, prepare the quarterly financial reports. Bank reconciliations should be accurately prepared, reconciled to the ledgers, and any variances promptly researched and resolved. The county treasurer should also prepare and submit an annual settlement to the fiscal court for approval.

*County Judge/Executive's Response: A change in personnel was made with the office of county treasurer following the audit period for which this report reflects. The new treasurer has worked closely with the Department of Local Government since taking office to correct many of these issues. The treasurer is also utilizing fiscal management software as recommended by the state and audit team and will alleviate the possibility of these inaccuracies reoccurring.*

2014-009    The Fiscal Court Should Maintain Accurate Capital Asset Records

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During the review of capital assets, the auditors noted the fiscal court is not maintaining accurate asset schedules.

Because the fiscal court is not providing adequate oversight in this area, numerous audit adjustments were made to the asset schedules. These adjustments resulted in total increases of the beginning balances to land by \$1,049,409 and equipment by \$149,193. The adjustments also resulted in total decreases of the beginning balances to buildings by \$407,863, vehicles by \$261,278 and infrastructure by \$348,406.

By not maintaining an accurate schedule, there is a risk that capital assets may not be insured or that the County pays insurance for assets they no longer own.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual, capital asset records are necessary for proper valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. The manual states that capital asset records should include a description of the asset, historical cost, date of acquisition, date of disposal, useful life of the asset, salvage value, depreciation expense, accumulated depreciation, and proceeds from sale or disposal of assets. In addition, the manual states that a capital asset record should be prepared for each acquisition.

**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-009 The Fiscal Court Should Maintain Accurate Capital Asset Records (Continued)

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We recommend the fiscal court appoint an employee in charge of maintaining fixed assets. The employee should maintain records throughout the year of any purchases and retirements of assets and provide periodic updates to the fiscal court. Purchases should include the date the asset was acquired, a description of the asset, the vendor name, the amount, salvage value and useful life. Invoices for asset acquisition should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. We further recommend that as an asset is retired or disposed of, it be removed from the listing. If possible, an inventory count at June 30 of each fiscal year should be conducted. The fiscal court should provide the necessary oversight needed to perform this important function.

*County Judge/Executive's Response: Throughout the course of my administration, each auditing team has recommended a different way to report the assets in holding of county government. While the final report may not reflect the information exactly as requested by auditors, I do feel I have strong control over county inventory, including insurance for this inventory. Each year, every department updates an inventory schedule. That schedule is reviewed by my office and then referenced against the insurance database to make sure every item in county control is properly managed and insured. In the future, I will direct my staff to make the appropriate adjustments to the final asset record report recommended by this audit team.*

2014-010 The Fiscal Court Should Improve Internal Control Procedures Over Receipts By Maintaining Accurate Records And By Segregating Duties Over All Accounting Functions

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A lack of segregation of duties exists over the following accounting functions: receipts, collection and processing, recording-keeping, report preparation and reconciliations. No documented review or compensating controls exist over these areas. We noted the following during our review of internal controls:

- The County Treasurer prepares and deposits the receipts, posts to the ledger, and prepares reports from these ledgers for submission to the Department for Local Government (DLG), and performs the bank reconciliations.
- Items returned from the bank are returned to the County Treasurer.
- Deposits were not made in a timely manner.
- Items outstanding for a sufficient period of time were not followed upon.
- The Finance Officer prepares a listing of bills for Fiscal Court's approval and prints the checks.
- The County Judge and County Treasurer sign the checks without evidence of a comparison to the invoices.
- Ledgers are not being reconciled between the County Treasurer and the Finance Officer.

The lack of segregation of duties occurs because of the fiscal court has failed to segregate incompatible duties or implement oversight when duties cannot be segregated. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

We recommend the fiscal court separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this oversight. We also recommend the County Treasurer and County Judge/Executive, prior to signing the checks; compare them against the original invoices. Additionally, we recommend ledgers maintained by the County Treasurer and Finance Officer be reconciled monthly and this reconciliation be documented.

**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-010    The Fiscal Court Should Improve Internal Control Procedures Over Receipts By Maintaining Accurate Records And By Segregating Duties Over All Accounting Functions (Continued)

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*County Judge/Executive's Response: Many of the items discussed here are continuing occurrences from audit to audit. The limitations of my staff do not appropriately allow for segregation of duties as the auditors would like. However, I ensure that each of my staff will do their jobs in the best way possible to ensure compliance with state laws and auditing standards. I also work to review the actions my staff has taken but appropriate segregation of duties is very difficult with our staff limitations.*

2014-011    The Former County Treasurer And Finance Officer Did Not Reconcile Their Financial Records

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The former County Treasurer and the Finance Officer maintained two separate sets of financial records using two different computer programs. However no reconciliations of the two were performed. As a result, we noted the following:

- The Finance Officer voided numerous checks from various funds without notifying the former County Treasurer. These disbursements were approved by the fiscal court and the checks had been prepared, signed, and posted to the former County Treasurer's appropriations ledger. Since the former County Treasurer was not informed that these checks had been subsequently voided, she continued to show them as outstanding on her June 30, 2014 bank reconciliations and did not take them off of her appropriations ledgers. The Finance Officer did not document the reasons for voiding these checks and we were unable to determine if these checks were for legitimate claims or if replacement checks should have been issued.
- The former County Treasurer voided prior year outstanding checks and posted them to her appropriations ledger as negative disbursements instead of restating the beginning surplus balances.
- The former County Treasurer posted various immaterial adjustments to her receipts and/or appropriations ledgers in order to agree them to her reconciled bank balances. These adjustments did not reflect any actual receipts or disbursements but were made based on inaccurate postings to these ledgers as well as inaccurate bank reconciliation. Had the former County Treasurer and the Finance Officer reconciled their financial records these adjustments would not have been necessary.
- Cash transfers were not accurately accounted for. Cash transfers totaling \$15,000 were made from the General fund to the Jail fund and the Ambulance Equipment Fund but were re-deposited to the General Fund. The former County Treasurer included these as transfers out of the General fund and then made a \$15,000 adjustment to increase the miscellaneous receipts account within the General fund in order to agree her financial records to her June 30, 2014 reconciled bank balance. These transfers were not included as transfers in to the Jail and Ambulance Equipment Funds.
- On June 6, 2014, a check was issued to transfer \$5,000 from the General Fund to the Ambulance Equipment Fund. However, this check was not deposited until July 11, 2014 and was not counted as a transfer in of the Ambulance Equipment fund for the fiscal year ended June 30, 2014. Additionally, a transfer totaling \$115 was made from the General Fund to the Grant Fund. This transfer was posted as a transfer out of the General Fund but not as a transfer in to the Grant Fund. Therefore, the totals for transfers out and transfers in did not agree. Checks written to transfer cash to the Ambulance Equipment fund were regularly held for several days before being deposited.

**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-011 The Former County Treasurer And Finance Officer Did Not Reconcile Their Financial Records  
 (Continued)

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- Six (6) checks totaling \$18,390 were issued for amounts due to the Road Fund from the General, Jail, Park and Solid Waste Funds but were not deposited. These checks were issued to reimburse the Road Fund for fuel purchased from Road Fund monies but used by other county offices. These checks were included as outstanding on the former County Treasurer's June 30, 2014 bank reconciliation and were posted to the respective appropriations ledgers. They were subsequently voided by the incoming County Treasurer and no replacement checks were issued. Since Road Fund monies can be used for road purposes only, these amounts are still due to the Road Fund.
- One check in the amount of \$33 from the county's Solid Waste Fund did not clear the bank but was counted as a disbursement of grant funds. This check was included on the documentation sent to the state to document the disbursement of a tire recycling grant. It was also included as outstanding on the former County Treasurer's June 30, 2014 bank reconciliation and was posted to her appropriations ledger for the Solid Waste Fund. The check was subsequently voided by the incoming County Treasurer and no replacement check was issued.
- Payments to vendors were regularly held for up to several weeks after the claims were approved and checks were issued. Auditors discussed this with the Deputy Judge/Executive and the Finance Officer and were told that the fiscal court regularly approved claims without having the funds available to cover the checks. Checks were then held until funds became available. Although the checks were dated as of approval date and indicate that vendors were paid with thirty days as required by KRS 65.140(2), the fiscal court was not in compliance with this statute since these payments were held.

This failure to reconcile the two sets of financial records increases the risk that fraud could occur and go undetected and financial records maintained are inaccurate. In addition, since the quarterly financial statements are prepared from the receipts and appropriation ledgers, an inaccurate fourth quarter financial statement was prepared. If the two sets of financial records had been reconciled, the former County Treasurer could have provided the fiscal court members with accurate fund balances prior to them approving claims.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The County Budget Preparation and State Local Finance Officer Policy Manual lists the duties of the County Treasurer and finance officer. Duties of the finance officer include the requirement that the finance officer reconcile the appropriations ledger with the treasurer's appropriations ledger at least once a month. This Policy Manual also states that the County Treasurer may countersign checks only if there is a sufficient fund balance and adequate cash in the bank to cover the check. KRS 68.300 states: "Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable." KRS 68.275(1) and (2) states, "Claims against the county that are within the amount of line items of the county budget and arise pursuant to contracts duly authorized by the fiscal court shall be paid by the county judge/executive by a warrant drawn on the county and co-signed by the county treasurer. The county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid." If the fiscal court had known that funds were not available to pay claims they could have ordered that the claims not be paid.

**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-011    The Former County Treasurer And Finance Officer Did Not Reconcile Their Financial Records  
 (Continued)

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We have determined that a fiscal court approving a claim, then cutting a check to pay that claim, but then holding the check for weeks until there is enough money in the bank before signing and mailing the payment to the claimant, not only violates KRS 65.140(2) which requires payment within 30 days, but is an irregular and improper practice of financial administration per KRS 43.070; and that this irregular and improper practice should cease, especially considering the language of KRS 68.275(1) and (2), and of KRS 68.300, and of the DLG's Budget Manual.

We recommend the Fiscal Court ensure that accurate financial records are maintained by requiring the County Treasurer and Finance Officer to reconcile their financial records on a monthly basis. All outstanding checks should be followed up on in a timely manner before they are voided. Reasons for voiding outstanding checks should be documented and replacement checks issued if required. Additionally, both sets of the financial records should be adjusted accordingly. We also recommend that claims be approved only if funds are available at the time of approval.

*County Judge/Executive's Response: A change in personnel was made with the office of county treasurer following the audit period for which this report reflects. The new treasurer has worked closely with the Department of Local Government since taking office to correct many of these issues. The treasurer is also utilizing fiscal management software as recommended by the state and audit team and will alleviate the possibility of these inaccuracies reoccurring. Since issuance of this audit, other changes have been made within my office that will allow for proper reconciliation of records to prevent reoccurrence.*

2014-012    The Fiscal Court Should Not Have Deficit Balances In The Jail And Grant Funds

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As of June 30 2014, the Jail Fund and the Grant fund had deficit balances of \$6,476 and \$10,048 respectively. The deficit in the Jail Fund resulted from the failure to properly follow up on outstanding checks in a timely manner and properly monitor cash balances. The deficit in the Grant Fund was due to Fiscal Court's practice of approving and issuing a check prior to having funds available to cover the check. On June 6, 2014, a check was issued from the Grant Fund. This check was held until the grant funds were deposited on July 22, 2014 and the check cleared on July 23, 2014.

KRS 68.110(1) states, "The fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year or levied, collected or appropriated for any special purpose."

We recommend the Fiscal Court not allow county fund to operate with deficit balances by ensuring that cash funds are available before checks are issued.

*County Judge/Executive's Response: Use of fiscal management software and proper accounting procedures by both the treasurer and the finance officer will allow for proper review of finances prior to issuance of a purchase order. This action alone will prevent the occurrence of deficit balances in any account. This issue will be monitored closely and further corrections implemented.*

**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-013    The McCreary County Fiscal Court Should Strengthen Controls Over The Loan Program

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The McCreary County Fiscal court has been involved in a program from the United States Department of Agriculture (USDA) called the Rural Business Enterprise Grants-Revolving Loan Fund since approximately 1994 to present date. During this time period, the county was approved for various grants to encourage new employment opportunities in McCreary County by providing low cost financing to new and existing businesses. In June 2013, the McCreary County Fiscal Court was awarded an additional Rural Business Enterprise Grant for \$75,000. The additional award brought the grant total to \$585,000. The Rural Business Enterprise Grant funding will be used to recapitalize an existing revolving loan fund called SMART Works Loan Fund, which will continue to serve the small and emerging businesses located in McCreary County.

Per the grant application, the SMART Works Loan Fund will be directly administered by the Director and the Board of the McCreary County Office of Economic Development. The Director of Economic Development will be responsible for administering and marketing the SMART Works Loan Program and for the servicing of such loans to ensure proper management and timely payment of the interest and principal. Once the grant funds are re-paid from the borrower to the SMART Works Loan Fund, the re-paid principal and interest will be used to make additional loans.

Upon reviewing the grant program, it was noted that proper documentation such as loan documents, liens, and payment schedules had not been properly maintained and loan files had to be reconstructed to comply with the reporting requirements set by the grant agreement.

In addition the following issues were noted:

- The financial reports reflected that payments were made prior to the loans being entered into the financial program.
- The amounts entered into the financial program included the principal and the interest amounts, which indicate that interest is not being properly calculated on the outstanding balances of the loan based on payment dates.
- Deposits traced to the bank statement did not coincide with the dates the checks were received. One check was dated for September 1, 2014 but not deposited until January 13, 2015.

Per the documentation relating to the 32 loans made since June 2000,

- The total loans documented were \$1,530,029.
- Five (5) loans have been paid in full. Total loan repayments for these five loans were \$277,980.
- Eight (8) loans totaling \$363,015 have gone into bankruptcy, of which \$318,509 was uncollected.
- One (1) loan for \$50,000 is in litigation with a loan balance of \$15,842.
- Seven (7) loans made 39 payments in fiscal year 2014 totaling \$20,746.
- Twelve (12) loans totaling \$454,247 had no repayment activity in FY 2014. The uncollected balances were \$388,243.
- Documentation obtained from the finance officer and the Economic Development officers regarding the amounts owed and the balances due does not agree. The Finance Officer had a total loan balance outstanding of \$782,291 and the Economic Development officer had a total loan balance outstanding of \$950,443. Variances are due to the finance officer including interest in the initial loan amount recorded in the program and the Economic Development director only records the principal. One list also includes bankruptcies and the other does not, causing a discrepancy between totals.
- Estimated uncollectable loans are \$706,752 or 74% of the outstanding loan balance per the report submitted to the USDA for FY 2014.

**MCCREARY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-013 The McCreary County Fiscal Court Should Strengthen Controls Over The Loan Program  
 (Continued)

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- Loans totaling \$199,952 went to a board member, county employees or relatives of board members or county employees.
- Loans and payments are not reported to the credit bureau which could allow the borrower to obtain additional loans.
- Payments, late payments, and non payments are not being reported to the credit bureau.
- The county has submitted fourteen (14) loans representing \$563,379 in outstanding principal and interest to the County Attorney for legal action as of January 2015.

The grant application states, “Records will include an accurate accounting of any principal repayments, interest, or other proceeds generated by the loan fund and will document expenses paid for with interest, or other proceeds generated by the loan will be documented for the grant audits.”

The application states, “The SMART Works Loan Fund is administered by the McCreary County Fiscal Court and all funds and accounting functions are maintained by the County Treasurer in accordance to Kentucky state law.”

We recommend the McCreary County Fiscal Court comply with the requirements of the loan application and that all loans are properly made, documented, collected and reported. It is further recommended that the McCreary County Fiscal Court obtain an opinion from the County Attorney regarding the legality of loans to related parties and board members and determine if any required disclosure is necessary. The McCreary County Fiscal Court should also ensure they meet the reporting requirement established by the USDA.

*County Judge/Executive's Response: The loan program has plagued my administration since the beginning. Prior to my administration, the program was not managed by the Fiscal Court and therefore not properly audited, so many of these instances were not revealed until audited of recent. Since I have taken over management of this program, my staff has worked closely with the USDA to ensure we are properly managing the program. Loans are being issued by their standards and all proper paperwork is being completed, loan documentation secured and loans properly managed. Many of the problems go beyond my control and tenure in office. However, I, along with the Fiscal Court, have worked to push this issue forward so corrective action can be taken. I, and those that have oversight of this program, are satisfied that the program is being properly managed. All loans that are in delinquency are being pursued. Either the economic development director has made contact with those individuals to take corrective action, or those individuals have been turned over to the county attorney's office for legal action and collections.*

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**MCCREARY COUNTY FISCAL COURT**

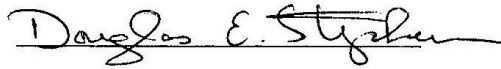
**For The Fiscal Year Ended  
June 30, 2014**




CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
MCCREARY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

The McCreary County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "Douglas E. Styzhen", written over a horizontal line.

County Judge/Executive

A handwritten signature in black ink, appearing to read "N. J. Jewell", written over a horizontal line.

County Treasurer

